MULTIMEDIA UNIVERSITY*

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM 2215)

BME1014 – INTRODUCTORY MICROECONOMICS

(All sections/Groups)

15 FEBRUARY 2023

9.00 A.M. -11.00 A.M.

(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 3 pages with 4 questions.
2. Attempt **ALL** QUESTIONS. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

(a) Define consumer surplus. Graphically explain the relationship between consumer surplus and equilibrium price. (10 marks)

(b) Using the law of diminishing returns, discuss the relationship between total product, average product and marginal product. (10 marks)

(c) The owner of a sport club asks you for advice about whether the company should raise or lower the fee of its membership this year based on the following consideration: last year the club raised the price of its membership by 6% and the number of members paying the same fee fell by 9%. Explain the effect on total revenue by calculating the price elasticity of demand. (5 marks)

(Total: 25 marks)

QUESTION 2

(a) Describe how the consumption of satay steak does not hold true for the law of diminishing marginal utility. (6 marks)

(b) A purely competitive firm has the schedule of total fixed costs and total variable costs for gas as shown in the table below. Calculate the total cost. (3 marks)

Output	TFC	TVC	TC
0	$250	$0	
2	$250	200	
4	$250	340	
6	$250	590	
8	$250	1000	
10	$250	1650	

i) Compute the total revenue and total profit of the firm at each level of output at market prices of $150 and $200 respectively. (12 marks)

Continued ...

Output	Market price = $150		Market price =$200	
	Total Revenue	Profit (+) / Loss (-)	Total Revenue	Profit (+) / Loss (-)
0				
2				
4				
6				
8				
10				

ii) Determine the output level that the firm would produce and its profit at market prices of $150 and $200 respectively. (4 marks)

Price	Quantity Supplied	Profit (+) / Loss (-)
$150		
$200		

(Total: 25 marks)

QUESTION 3

(a) Define price discrimination. Discuss the impacts of price discrimination for the producer, the consumer and the society. (12 marks)

(b) What is allocative efficiency? Graphically explain why a monopoly has inefficient allocation of resources even it seeks to maximize profit. (13 marks)

(Total: 25 marks)

Continued ...

QUESTION 4

(a) Two suspects are arrested for a crime. The following payoff matrix indicates the year of sentence for Suspect A and Suspect B based on finking or remaining silent strategy.

		Suspect A	
		Fink	**Silent**
Suspect B	**Fink**	A = 1, B = 1	A = 3, B = 0
	Silent	A = 0, B = 3	A = 2, B = 2

(i) What is the best-response strategy for Suspect A? What is the best-response strategy for Suspect B? (8 marks)

(ii) What is a Nash equilibrium? Is there any Nash equilibrium for Suspect A and Suspect B? (6 marks)

(b) A monopolistically competitive firm is producing 60 units of output in the short run where marginal cost is \$2.00, average total costs are \$3.00, price is \$5.00, average variable cost is \$2.50, and marginal revenue is \$2.00. How much profit is the firm making? What output recommendation would you make for the firm? (5 marks)

(c) Suppose the output price is \$3, a firm is maximizing its profit by hiring six workers. If the marginal revenue product for sixth unit of worker is \$120, calculate the marginal product of sixth unit of worker and the wage rate. (6 marks)

(Total: 25 marks)

End of Paper